

Asia-Pacific CSD Group E-NEWSLETTER

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MESSAGE FROM ACG CHAIRMAN



Dr. Wenhua DAI

ACG Chairman
China Securities Depository and Clearing Corporation

Dear ACG Members,

It is with immense pleasure and pride that I introduce to you the 13th edition of the ACG Newsletter. This publication stands as a testament to our unwavering commitment to fostering knowledge, dialogue, and innovation within the ACG community.

Reflecting on the first half of 2023, we are delighted to acknowledge the successful convening of ACG members in the picturesque surroundings of Bali, Indonesia. We extend our heartfelt gratitude to the gracious hosts, KSEI and IDCclear, for their invaluable contribution to the success of the 23rd Cross Training Seminar. This event exemplified the spirit of international cooperation and the exchange of expertise that defines the essence of ACG.

As we embark on this intellectual journey through the pages of our 13th edition, it is imperative to briefly consider the prevailing economic landscape of 2023 as of July. The year has been marked by a delicate interplay of factors on the global stage. The echoes of the pandemic, coupled with ongoing supply chain disruptions, continue to influence markets worldwide. Central banks and policymakers grapple with the complexities of inflationary pressures and the pursuit of sustainable growth.

In the face of these challenges, our association remains steadfast in its mission to provide you, our esteemed readers, with insights that illuminate the path forward. It is in this spirit that we have invited SWIFT to grace this edition as our guest contributor. SWIFT, with its extensive expertise, delves into the critical topic of "Industry Preparedness for Accelerated Settlement." Their contribution promises to offer a wealth of knowledge and actionable insights that will resonate with professionals across sectors.

As always, I express my deepest gratitude to our dedicated members, contributors, and readers who make the ACG Newsletter a symbol of excellence and a testament to the power of collaboration. Together, we shall navigate the intricate currents of the global economy, adapting and thriving as we forge ahead.

Thank you for your unwavering support, and I eagerly anticipate the enlightening journey that awaits us in this edition.

Warm regards

A handwritten signature in black ink, consisting of stylized Chinese characters, located at the bottom right of the page.

MARKET UPDATES

China Securities Depository and Clearing Corporation (CSDC)



A Brief Analysis of DVP Reform in China's Capital Market

[Abstract] On December 26, 2022, China's capital market set a milestone by launching the DVP (Delivery versus Payment) reform, being the first to adopt T+1 DVP. This article explores the motivations and logic behind the DVP reform, elaborates on the key measures implemented, and assesses the outcomes of the T+1DVP initiative in enhancing safety and efficiency, preventing principal risk, and controlling the liquidity risk of the Chinese settlement system.

The curtain rose on the DVP reform in China's capital market on December 26, 2022, positioning China as the global pioneer in adopting T+1 DVP. Six months after the reform, the market responded with positive feedback and stable operation. This article reviews the background, key measures, and outcomes of the reform, intending to present a full picture of China's DVP reform.

1. Background

1.1 Settlement service before the DVP reform in the Chinese market

A. It has long been the case that individual investors account for the vast majority (over 99%) of China's A-share market. Given such a market structure, it has developed an A-share settlement model where settlement risks are managed mainly through ex-ante measures, achieving the same outcome as DVP model regarding principal risk prevention. The measures include a trade front-end monitoring system, a third-party custody system for clients' settlement funds in the

brokerage business, full margin requirements for brokerage business, and the monitoring of client settlement funds.

1.2 Motivations behind the reform

While the measures above have secured steady operation of the Chinese market for years, CSDC continually aims for enhancement. As an important financial market infrastructure(FMI), CSDC responds to the need for opening-up expansion by refining the settlement system in the Chinese market. It has expedited the DVP reform, aligning with the 2016-2017 Financial Sector Assessment Program(FSAP) recommendation that "China should adopt full DVP in CSDC."

2. Key measures

China's capital market had extensive communication with domestic and foreign institutions at the beginning of the reform. Three fundamental principles for the reform were laid out: First, stick to the core value of DVP by linking the securities and cash leg to guard against principal risk; second, draw on global practices; third, formulate a practicable reform taking into full consideration the unique characteristics and history of Chinese capital market.

When devising the reform plan, CSDC sought the input of a variety of domestic and foreign market institutions, including securities companies, custodian banks, fund managers, QFIs, and insurance asset management companies. CSDC also consulted with experts and scholars from IMF, HKEX, etc., at home and abroad to assess the plan. Incorporating their suggestions and feedback, CSDC adopted the model that establishes a linkage between the securities and cash leg by introducing a tagging system. The reform also includes default management measures covering all businesses (brokerage, custody with QFI





included, and proprietary business). Specifically, the reform hinges on the following central points: For the net buying participants with insufficient funds, CSDC will tag the securities corresponding to insufficient funds as “sellable settlement block”, which indicates that the tagged securities are still in the settlement process and cannot be used by any individual or organization. The tag can be removed after sufficient funds are posted. Failing to provide enough cash by 16:00 on T+1 will be recognized as a cash default. CSDC is entitled to earmark their securities under “sellable settlement block” with “to-be-disposed settlement block” and to dispose of them to guard against principal risk.

By tagging “sellable settlement block” to establish the linkage between the securities and funds leg and putting in place default procedures, the principal risk is well controlled, and DVP is fully adopted in China’s capital market.

3. Outcomes

Since the roll-out of the DVP reform, the Chinese capital market has witnessed steady operation and positive responses. The reform bridged the gap between the securities and cash leg and optimized interim and ex-post risk control systems to supplement existing ex-ante measures. Implementing the DVP model in China’s capital market significantly mitigated principal risk and intraday liquidity risk in settlement.

China becomes the first market in the world to adopt the T+1DVP settlement model, a further step in promoting the safety and efficiency of its securities settlement. Currently, the settlement cycle in most foreign markets is T+2, including U.S., U.K., Germany, Japan, and Singapore. To reduce principal risk,

improve market liquidity and strengthen financial market risk management, several markets, including the U.S. and U.K., are recently considering or already pushing forward the shortening of the settlement cycle. T+1DVP has gained momentum globally. China’s DVP reform has enhanced settlement safety in an all-around way while keeping its leading position in settlement efficiency, making it the first in the world to usher in the era of T+1 DVP.

4. Future outlook

In recent years, many important reforms and opening-up projects have been rolled out in China’s capital market, including the Shanghai/Shenzhen-Hong Kong Stock Connect, the connectivity mechanism of depository receipts (DR), the DVP reform, and the registration-based IPO system reform. In the future, China’s capital market will continue to promote reform and opening-up and improve communication with global investors to facilitate their better understanding of the Chinese market. By uniting, it is believed that global capital markets can forge a path towards a more prosperous future.



China Central Depository and Clearing Corporation (CCDC)



Overview

China Central Depository & Clearing Co., Ltd. (CCDC), founded in December 1996, is the only one of the 26 Chinese central financial enterprises to specialize in financial market infrastructure (FMI) services. By the end of June 2023, CCDC has over RMB 100 trillion worth of bonds under its depository, marking a new milestone in the construction of China's bond market infrastructure.

RMB **100** trillion

Market Updates

1. CCDC Released English Versions of Specifications for Bond Business Process

CCDC officially released the English versions of enterprise standards for CCDC business process, including Specifications for Bond Business Process of CCDC - Part 1: Issuance (Q/CCDC 00004.1—2020), Specifications for Bond Business Process of CCDC - Part 2: Registration and Depository (Q/CCDC 00004.2—2020), Specifications for Bond Business Process of CCDC - Part 3: Clearing and Settlement (Q/CCDC 00004.3—2020), and Specifications for Bond Business Process of CCDC - Part 4: Bond Collateral Management (Q/CCDC 00004.4—2020).

CCDC continuously pushes forward the standardization of its business to improve the quality of its products and services. The release of English versions of enterprise standards is part of CCDC's efforts in better serving domestic and foreign investors, enhancing the understanding of the China Interbank Bond Market (CIBM) and CCDC's business processes, and promoting the quality of opening up of China's bond market.

2. CCDC Launched the Online Recycling Settlement Service

To respond to market demands and further facilitate overseas institutional investors' participation in the China's bond market, CCDC launched the online processing service for recycling settlement. The Operational Rules for the Provision of Online Recycling Settlement Services for Overseas Institutional Investors by China Central Depository & Clearing Co., Ltd. was released and implemented on April 25th.

3. ChinaBond Indices Obtain Assurance of IOSCO Principles

On March 31st 2023, ChinaBond Pricing Center Company Limited (CBPC) obtained an assurance report on the compliance with International Organization of Securities Commissions Principles for Financial Benchmarks (IOSCO Principles), which confirms that the CBPC and ChinaBond Indices compiled by CBPC fully comply with the requirements of the IOSCO Principles.

4. CCDC PFMI Information Disclosure and Self-Assessment (Status as of Dec. 2022) was Released

On 15th May 2023, CCDC PFMI Information Disclosure and Self-Assessment Report (2022) was released. Per request of the CPSS-IOSCO Principles for Financial Market Infrastructures, the Report assesses the business of CCDC related to its CSD and SSS functions in the China's inter-bank bond market. The Report was first disclosed in 2016 and updates on an annual basis. The 2022 release reflects the status quo of the company as of December 2022.

5. CCDC and BNP Paribas Co-hosted Overseas Investor Event in Paris

On May 24th 2023, CCDC and BNP Paribas co-hosted an overseas investor conference in Paris to discuss the bond settlement agency business in multi-level service scenarios. During the event, experts of both parties shared views on the global macroeconomic developments, the opportunities in the Chinese market, the opening up of the China's bond market and CCDC's cross-border business, and the settlement agency business of BNP Paribas.

6. CCDC Attended the 55th ICMA AGM & Conference in Paris, France

From May 24th to 26th, CCDC delegation attended the 55th International Capital Market Association Annual General Meeting and Conference (ICMA AGM & Conference) held in Paris. CCDC's booth at the Conference witnessed extensive exchanges with more than 1,000 attendees from global central banks and commercial institutions, including the European Development Bank, Crédit Agricole, Societe Generale and S&P, etc. CCDC representatives introduced recent policy updates in China's bond market and CCDC's products and services.

7. CCDC and ICBC Co-hosted Saudi Arabia Investor Event

On June 8th 2023, CCDC and ICBC co-hosted an investor outreach event in Riyadh, Saudi Arabia. The theme of the event was "Outlook of China Capital Market and Comprehensive Solution". Mr. Jinglin Guo, General Manager of ICBC Riyadh Branch, and Mr. Liangdui Xu, Vice President of CCDC attended the event and delivered speeches. Saudi institutions, including Saudi Sovereign Wealth Fund, Saudi National Bank and Riyadh Bank, participated the event.

8. Online One-stop Settlement Failure Reporting Service Launched under the Bond Connect Northbound Trading

On June 30th 2023, the Online One-stop Settlement Failure Reporting Service for the Northbound Trading of Bond Connect (the Service) jointly provided by the National Interbank Funding Center (CFETS), the China Central Depository & Clearing Co., Ltd. (CCDC), the Shanghai Clearing House (SHCH) and the Bond Connect Company Limited was officially launched. The Service is part of the initiatives under the guidance of the People's Bank of China (PBC) to further facilitate offshore investors' activities in China's Inter-bank Bond Market. Parties of the Northbound Trading of Bond Connect are no longer required to submit the settlement failure reporting forms to CFETS, CCDC or SHCH if they choose to report the failed settlements using the Service, which will significantly enhance the efficiency and convenience of settlement failure reporting.

As the next step, under the guidance of the PBC, the infrastructures of the Inter-bank Bond Market and service providers of Bond Connect will make further efforts in improving the trading convenience for offshore investors and contributing to a higher-level opening up of the China bond market.

Central Securities Depository of Iran (CSDI)

CSDI Unveils New Brand Identity at FINEX 2023

Central Securities Depository of Iran (CSDI) has recently undergone a re-branding project, unveiling its renewed brand identity at FINEX 2023 in Tehran.

The primary objectives of this project were to elevate CSDI's market position, improve customer perceptions, and enhance the overall brand strategy, while ensuring a consistent, cohesive, and impactful brand identity across all communication channels.

To begin the re-branding project, CSDI conducted an analysis of its existing brand and market position, which uncovered minor inconsistencies across its communication channels. Based on these findings, CSDI developed a renewed brand identity that captures its core values and mission, conveying true personality to the audience and reinforcing its commitment to providing secure financial services.

The new brand identity features a new logo, color palette, typography, and imagery that emphasize simplicity and clarity, resulting in a more impactful visual identity. By establishing a consistent and cohesive brand identity across all communications, CSDI aims to enhance its market position and

reputation while improving customer perception and engagement.

The unveiling of the new brand identity at FINEX 2023 marked a significant milestone for CSDI, signifying the beginning of a new era for the company. The new brand identity was met with enthusiastic reception from attendees and garnered positive feedback from the media. With its updated design and messaging, the new brand identity accurately reflects CSDI's values and mission, ultimately enhancing its reputation and visibility within the Iranian capital market.

The seamless execution of the re-branding project highlights CSDI's unwavering dedication to repositioning its brand, tracking its market position, customer perceptions, and brand strategy. By establishing a more consistent and cohesive brand identity across all communications, CSDI is poised to solidify its reputation as a prominent player in the Iranian capital market, elevating its profile and enhancing its overall brand recognition.

RECENT EVENTS

The 23rd ACG Cross-Training Seminar



After previously being held online due to the Covid-19 pandemic, in 2023, KSEI, together with IDClear, had the opportunity to hold a face-to-face ACG Cross-Training Seminar. The 23rd ACG Cross-Training Seminar (CTS23) was held from June 19 to 22, 2023 in Bali.

This event was organized with the aim of facilitating information sharing, exchanging business expertise, and providing a space for discussions among the ACG members. A total of 89 participants from 21 institutions in various ACG member countries attended this event, with 42 of them acting as speakers to share the latest capital market development as well as sharing the latest development in each institution.

The seminar began with the Indonesia Capital Market Update session delivered by the Director of the Indonesia Stock Exchange, IDClear and KSEI, and then followed by the task force sessions.



• Risk & Recovery Management Task Force

The Risk & Recovery Management Task Force session addressed the topic “Risk Impact of Defaulting/Collapsing Economies on CSDs and Mitigating Measures”. IDClear, NSDL, CDSC Nepal and CDC Pakistan shared the best practices implemented in each institution while CDS Sri Lanka shared their efforts of getting through an economic crisis.

• Exchange of Information Task Force

“Shortening of Settlement Cycle - Considerations for T+1 Settlement” was the topic brought up by the Exchange of Information Task Force. CSDC and NSDL delivered the story of implementing the T+1 Settlement, SIX shared the anticipated impacts based on the execution in the US and Canada, and JASDEC shared their plan and preparation of implementing the T+1 Settlement.

• Legal Task Force

Legal Task Force brought the topic “Introduction to Cross Border Trading and Services in Securities Market Sharing”. ChinaClear presented its cross-border connections with other foreign securities markets. NSDL and KSD shared the application of cross-border trading and services in their respective countries. CSDI shared the challenges and solution of proxy trading for foreign investors and AECSA delivered the post-trading services and cross-border links presentation in the Eurasian association.



• Technical Task Force

In this session, on the topic “Transforming Depository Services with API Market Place”, CSDI presented Data Warehouse as the foundation of Iran’s capital market. KSEI delivered the KYC Administration Services presentation. NSDL addressed the account aggregation in Indian Capital Markets while CDCPL shared some of their API initiatives and information security. VSD presented the adoption of SWIFT Messaging Communication.

• Investor Services Task Force

The topic brought up by ISTF was “Investor Services in the Digital Age: Latest Development and Innovation”. CSDI explained about its new electronic service for investors called Financial Ability e-Certificate. CDC Pakistan shared about centralized gateway project and professional clearing member services for investors. KSEI, TDCC and TSD explained about each institution’s online platform for investors which were AKSES, e-Passbook and Investor Portal. NSD delivered a series of services for investors, such as speed-e, IDeAS and e-Voting while KSD gave a presentation on the crowdfunding services for investors.



• New Business Task Force

New Business Task Force chose “New Services and Initiatives of CSDs” as the topic with CDS Sri Lanka shared the story of CDS eConnect which was an all-inclusive hub for CDS’s stakeholders. IDCclear presented the central counterparty for OTC interest rate and exchange rate derivatives transactions. JASDEC explained about the visualization service of settlement progress. KSD’s presentation was about the Risk-Free Reference Rate and disclosure service. TDCC explained about the SupTech platform for bills finance companies and TSD shared its new business, DRx and LiVE Exchange. KSEI gave a presentation on the role of S-MULTIVEST while NSDL shared a few of their businesses, including Client Asset Protection and account aggregator framework.

The seminar was also broadcast online via Zoom and Youtube to facilitate participants who could not be physically present at the seminar location.

The success of the CTS23 is inseparable from the active role of all the committees and participants involved. It is hoped that this event will enable the participants to gain more information and understanding on various issues relevant to their respective institutions and issues related to the Asia-Pacific capital markets.



TASK FORCE CONTRIBUTION



As global business travels came back to normal from COVID-19 pandemic, the long-awaited face-to-face ACG Cross Training Seminar (the 23rd Cross Training Seminar, CTS23) was grandly hosted by IDClear and KSEI in Bali this June. TDCC, the convener of the Investor Services Task Force (ISTF), meticulously prepared for its session with the theme of "Investor Services in the Digital Age: Latest Development and Innovation". The insightful ISTF session featured 8 speakers from 7 esteemed organizations sharing their cutting-edge updates on investor services. Their presentations delved into various compelling topics, including:

- 01 1.CSDI's financial ability e-Certificate service - a financial statement detailing investors' holding of equities and justice shares, which can be used as an official document for study abroad or visa applications.
- 02 2.CDCPL's Centralized Gate Way Portal - a single interface for investors' all kinds of assets, which connects with major verification utilities for identity checks and is also built with uniform and synchronized KYC and AML framework that will help intermediaries.
- 03 3.KSEI's AKSes Next-G platform - an integrated portal for all of its investor services, including investors' portfolio information, tax information, market disclosure and AGM-related services such as e-Proxy/Voting and electronic general meeting system.
- 04 4.KSD's crowdfunding platform - a centralized system that provides central repository, transfer agent and securities depository services for crowdfunding market players.

- 05 5.TDCC's ePASSBOOK App - an integrated portal that offered investors' assets information within TDCC and beyond TDCC (i.e. bank balance data at 16 partnered banks), market information and AGM-related services such as e-Voting, e-Meeting and e-Notice.
- 06 6.NSDL's digital investor services - mobile App "SPEED-e", internet-based demat account statement "IDeAS", electronic delivery instruction slip gateway "e-DIS", e-Voting for shareholder meetings and margin pledge instruction electronically using SPEED-e platform
- 07 7.TDCC's ESG service - an investor relation platform that bridges the ESG information gap between investors and issuers by providing screening tools and valuable data such as ESG ratings, ESG reports and proxy reports.
- 08 8.TSD's investor portal - a one-stop registrar platform which provides investors with service including online information (e.g. inquiry, view and print reports, edit securities holder information, dividend tax data for e-Filing system), e-Document, e-Donation and e-Proxy Voting.

Presentation files of the above invaluable sharing are available at the Event area on ACG Website. In addition to the latest updates at CTS 23, TDCC has also been collecting news regarding CSD's investor services and circulating ISTF online bulletins to ACG members. Relevant information can also be found at the Research & Report area on ACG Website. Moving forward, the ISTF will continue to make efforts to promote information exchange and collaboration among members, working together to develop better investor services.



GUEST COLUMN

Industry Preparedness for Accelerated Settlement

The SWIFT Institute

This paper discusses the progress made towards T+1 and instantaneous settlement in financial markets, and industry preparedness for such a change. We cover the various equity settlement technologies and analyse how collateral, stock lending and margin requirements can impact the settlement processes. The debate on shortening the equity settlement cycle is discussed, along with potential policy recommendations based on industry preparedness. The findings of this study will help stakeholders identify gaps in their current settlement processes and develop strategies to meet the demands of accelerated settlement.

- Please visit the link below to have full access to the report.

<https://swiftinstitute.org/news/industry-preparedness-for-accelerated-settlement/>



Key findings:

There are benefits accruing to broker/dealers and associated custody businesses from reduced counter-party risk, lower settlement margins and for wealth and fund managers, the improved access to funds for custom.

Technology is a key issue that needs to be addressed as the readying of firms for straight through processing is essential for not only improving the ability to comply with accelerated settlements, but also introducing huge benefits in terms of efficiency and operational risk reduction.

The arguments for accelerated settlements are strong, markets such as India are already on a T+1 cycle and mainland China using a T+0 cycle for delivery vs payment settlements and the benefits can be seen. However, our research shows that acceleration can come with significant costs, and, maybe less intuitively, risks, given the need operate seamless settlement processes.

Clear steps need to be taken to implement the migration to accelerated settlement processes:

- ▲ Automated affirmation and straight through processing levels must dramatically increase to ensure that current high levels of settlement efficiency.
- ▲ Work to remove batch processes, especially overnight batches which will not meet the new deadlines.
- ▲ Remove nonstandard instructions and paper from as much of the system as possible.

SWIFT INSTITUTE

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